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Analysis of Business Trends Plus Selected Financial Indicators

Global Effects Of Today's Oil "Crisis"

Although the jump in oil prices resulting from recent developments in the Middle East will spell somewhat higher inflation and slower growth for the global economy, the impact will be small compared with the oil price "shocks" of 1973 and 1979. For one thing, today's price increase is not as great in percentage terms. In 1973, the Arab oil embargo caused prices to surge from barely $2 per barrel to more than $10, a fivefold increase. In 1979, the effects of the Iranian revolution more than doubled the price of a barrel of oil from around $13½ to more than $31 by the end of 1980. In the present situation, a jump to $30 per barrel from last year's average price of $18 would represent an increase of 67 percent.

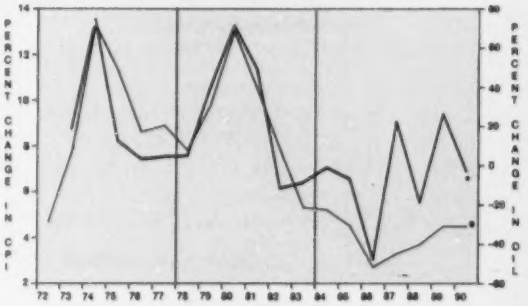
For another, most countries, at least in the industrial world, have not only become more efficient in their use of oil, but they have also reduced their reliance on the commodity to satisfy their energy needs. In Japan, for example, the amount of oil needed to produce $1,000 worth of economic output dropped by 55 percent between 1973 and 1989. And while the country must import 99 percent of its oil, petroleum products provide just 45 percent of Japan's total energy needs, down from 68 percent in 1973. In Western Europe, thanks to conservation efforts and the development of alternative sources of energy such as nuclear power, oil consumption relative to economic growth has dropped by almost 30 percent since 1980. In particular, France was able to reduce its reliance on oil from 70 percent of its energy needs in 1973 to around 40 percent today.

At the same time, the oil price shocks of the past have prompted the industrial countries to prepare for emergencies in the future. The strategic oil reserves of the 24 industrial nations belonging to the OECD are enough to replace two years' worth of supplies from Iraq and Kuwait. The current weakness of the dollar will also help to ease the blow of higher oil prices to Western Europe and Japan. Because oil is priced in dollars on the world market, these countries will have to give up fewer units of their local currency for each dollar's worth of oil.

The Industrial World Can Manage

While today's jump in oil prices will increase the inflation rates of virtually all the industrial countries, the impact will be far less than before. One reason is that industrial world inflation is starting from a much lower rate than in

CONSUMER PRICE INDEX FOR OECD (THIN) VS.
PRICE OF CRUDE OIL (THICK)
(ANNUAL PERCENT CHANGES)



*Jan-Jul 1990 e=OECD estimate
Sources: Independent Petroleum Association of America; OECD

1973 and 1979 (chart). Another is that the central banks, having learned a lesson from the past, will not let inflation get out of hand this time.

West Germany's central bank, already concerned about the inflationary effects of an anticipated hefty increase in public spending related to German reunification, is expected to lead a round of interest rate hikes in Continental Europe later this year. At the same time, the French government, which helped spark an inflationary spiral by allowing wage increases to maintain workers' purchasing power in 1979, is one of Western Europe's staunchest inflation fighters today. Japan, too, is expected to tighten monetary policy within the next few months.

While higher interest rates are inevitable in Continental Europe and Japan, robust economic growth in most of these countries make it likely that they can weather the higher cost of both oil and credit without too much damage to their economies. Thanks to an investment boom in preparation for the single market by 1992, the 12 countries belonging to the European Community (EC) are, for the most part, in good shape, especially West Germany and France, the Community's two largest economies.

Manufacturers Hanover Economics Department 17/270

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The West German economy is set to grow another four percent in real terms this year, the same as in 1989. France's real economic growth rate will exceed three percent in 1990, following two years of four percent-plus growth. If oil prices remain around current levels, Japan's economy should grow by 4¾ percent this year, close to last year's five percent clip.

While the world as a whole will not be as hard hit by the jump in oil prices this time around, some countries will feel more pain than others. And rather than its status as either a net oil exporter or importer, a nation's vulnerability will depend on its current economic shape. In general, the industrial countries should weather higher oil prices better than the less developed countries in Latin America and Africa and the nations of Eastern Europe.

But even within the industrial world, the countries experiencing robust economic growth and low inflation—such as Japan, West Germany, and France—will fare much better than those with sluggish growth and high inflation rates. Although the United Kingdom, for example, is an oil exporter, any modest gains to the country in terms of stronger export earnings and higher government revenues will be more than offset by the dire effects on its already high inflation

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (8/8/90)	213,539	- 585	- 5,752
New York City (8/15/90)	39,626	+ 411	- 3,144
Commercial Paper (8/15/90)	539,598	- 5,553	+ 36,727

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (8/8/90)	319,977	- 639	+ 2,147
New York City (8/15/90)	60,039	+ 1,752	+ 2,045

Total Loans and Leases Gross Adjus

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (8/8/90)	1,023,238	- 842	+ 51,655
New York City (8/15/90)	191,134	+ 4,786	+ 15,577

Financial Markets

	Friday 8/24/90	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	7.73%	+ .01	- .48
180-Day Bills†	7.87	+ .05	- .44
Longest Bills†	7.94	+ .14	- .34
Recent Issues:			
8s 7/31/92	8.30	+ .20	
8½s 6/30/94	8.61	- .05	
8¾s 8/15/00	9.06	+ .27	
8¾s 8/15/20	9.17	+ .23	
Municipals:			
Bond Buyer—20 Bond Index* (8/23/90)	7.56%	+ .30	+ .41
Blue List Total ($ Million)	$1,185	+ $ 13	- $ 241
30-Day Visible Supply ($ Million)	$2,484	+ $214	+ $ 114
Total	$3,669	+ $227	- $ 127
Corporates:			
Moody's Aa Composite (8/23/90)	9.74	+ .07	+ .51
30-Day Visible Supply ($ Million)	$ 900	–0–	- $1,269
Stocks:			
Dow-Jones Averages:			
Industrials	2,532.93	- 111.87	- 199.43
Transportation	869.71	- 54.20	- 598.28
Utilities	190.96	- 10.18	- 27.41
65 Stocks	875.53	- 44.23	- 213.75
N.Y.S.E. Composite Index	171.05	- 9.14	- 23.74
N.Y.S.E. Avg. Daily Vol. for Week (000's)	190,266	+ 42,314	+24,302

*34% Taxable equivalent 11.45%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 8/24/90	Week Ago
Overnight	8.00%	8.34%
1 month	8.13	8.13
3 month	8.19	8.19
6 month	8.31	8.31
1 year	8.50	8.50

FOREIGN EXCHANGE SPOT RATES

New York Opening (8/24/90)	Currency Per U.S. $	Week Ago
Belgium	31.94	32.01
Canada	1.1329	1.1455
France	5.2170	5.2220
Germany	1.5557	1.5542
Italy	1154.00	1146.50
Japan	142.20	147.80
Mexico	2867.40	2861.80
Netherlands	1.7523	1.7528
South Korea	707.55	709.54
Switzerland	1.2735	1.2905
Taiwan	26.89	26.86
U.K.*	1.9450	1.9100

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (8/24/90) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	-0.3%	-3.4%

rate and rapidly weakening economy. Canada, too, on the brink of recession from the government's tight monetary policy, will stand to lose more from continued high interest rates and a slowdown in growth in the United States, its major export market, than it will gain from higher oil export earnings.

Pain For The Less Developed Economies

Within the developing world, the rise in oil prices will mean more pain for the heavily indebted, oil-importing countries of Latin America and Africa, such as Brazil. But even an oil-exporting country such as Mexico could be a loser. This is because the slowdown in economic growth in the U.S. will hurt Mexico's non-oil exports, while higher oil prices may threaten the government's fragile economic stabilization program.

Perhaps the worst victims of higher oil prices will be the countries in Eastern Europe, struggling to adopt free market policies. Not only will they have to pay world prices for their oil now, their payments will have to be made in hard currencies. So while the world economy as a whole can manage the current oil "crisis", many individual countries will experience some pain. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 8/22/90	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov't's and Agencies Owned Outright & RPs	241.684	+ 2.202	+17.331
Loans to Depository Inst.	1.592	+ .937	+ .667
Float	.120	- .287	- .304
Total Reserve Bank Credit	281.914	+ 1.737	+24.240
Treasury Deposits with Federal Reserve Banks	5.501	+ .213	+ .839
Currency in Circulation	270.845	+ .217	+21.861
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	234.705	+ 2.655	- 6.234
	8/22/90		
Member Bank Reserves:			
Total Reserves Held	59.822	+ .961	+ 1.227
Excess (Deficiency)	1.019	+ .263	+ .068
Net Borrowed Reserves	.067	+ .334	+ .309
Monetary Aggregates †		**‡ % Change Since 3 Months Ago***	**‡ % Change Since Year Ago**
M1 (8/13/90)	814.4	+ 2.9	+ 4.0
M2 (8/13/90)	3,299.8	+ 2.1	+ 4.7
M3 (8/13/90)	4,085.6	+ 1.4	+ 1.6
Domestic Nonfinancial Debt (1st Q'90)	9,987.4	+ 7.6	+ 8.1

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 8/24/90	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	7.52%	7.50%	7.41%
* Federal Agencies	8.00	8.02	8.05
* Municipal Notes–High Grade (34% Taxable Equivalent)	8.78	8.94	9.09
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	8.20	8.35	8.48

‡ Finance Company Paper–Prime

5- 14 days	8.03%
15- 29 days	8.00
30- 59 days	7.98
60- 89 days	7.93
90-179 days	7.78
180-239 days	7.60
240-270 days	7.60

‡* Bankers' Acceptances

Sep.	8.05%
Oct.	8.07
Nov.	8.05
Dec.	8.02
Jan.	8.02
Feb.	8.01

‡ Industrial Paper–Prime

30- 89 days	8.00%
90-120 days	8.00

†Federal Funds Effective Rate 8.06%

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'90	$ 5,452 r	$ 5,375	- $ 5,174
Gross National Product (1982 Dollars)*	2nd Q'90	$ 4,163 r	$ 4,151	$ 4,112
Percent Change, Annual Rate	2nd Q'90	1.2 r	1.7	1.6
Change in Consumer Prices*	Jul '90n	4.8 %	6.0%	3.6%
Change in MH Cost of Living Index*	Jul '90n	6.0 %	6.0%	3.6%
Change in Producer Prices*	Jul '90	- 1.2%	2.4%	- 4.8%
Civilian Employment (Thousands of Persons) †	Jul '90	117,953	118,389	117,436
Unemployment as % of Civilian Labor Force †	Jul '90	5.5%	5.2%	5.3%
Personal Income*	Jun '90	$ 4,640	$ 4,623	$ 4,372
Leading Indicators Composite Index (1967=100) †	Jun '90	146.0	146.0	144.0
Industrial Production Index (1977=100) †	Jul '90n	109.9	109.9r	107.8
Net Change in Consumer Installment Credit †	Jun '90	$ 0.46	$ 3.65	$ 1.63
U.S. Merchandise Trade Balance †	Jun '90n	- $ 5.07	- $ 7.77r	- $ 7.95
Plant and Equipment Expenditures*	3rd Q'90	$ 511.6(a)	$ 506.8(a)	$ 484.9
Private Housing Starts (Thousands of Units)*	Jul '90n	1,148	1,179r	1,424
New Construction Expenditures*	Jun '90	$ 447.5	$ 447.6	$ 431.6
Total Business Inventories †	Jun '90n	$ 797.3	$ 800.4r	$ 782.6r
Total Business Sales †	Jun '90n	$ 544.4	$ 538.9r	$ 520.5r

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

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